

Isabella County Road Commission

BASIC FINANCIAL STATEMENTS

September 30, 2008

ISABELLA COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Robert Curtiss
Member

Katheryn Elliot
Chairman

Stephen Jackson
Vice-Chairman

David Livermore
Member

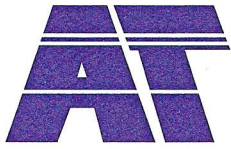
Jaclyn Conrad
Member

Anthony Casali
Manager

Deborah A. Buesking
Financial Director/Clerk

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Isabella County Road Commission
2261 E. Remus Road
Mt. Pleasant, Michigan 48858-9002

We have audited the accompanying financial statements of the governmental activities and major fund of the Isabella County Road Commission (a component unit of the County of Isabella, Michigan) as of and for the year ended September 30, 2008, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Isabella County Road Commission as of September 30, 2008, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008 on our consideration of the Isabella County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page 3 and budgetary comparison information as listed in the table of contents are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Isabella County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 17, 2008

Management's Discussion and Analysis

Using This Annual Report

The Isabella County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the Road Commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 11. The fund financial statements begin on page 25 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 9.26% from \$65.5 million to \$71.6 million for the year ended September 30, 2008. The net assets and change in net assets are summarized below.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements increased. Restricted net assets, those restricted mainly for Act 51 purposes increased. The primary reason for the increases was due to increases in federal support for road projects. Decreasing gasoline tax revenue negatively impacted net assets.

Net assets as of the years ended September 30, 2007 and 2008 is as follows:

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2008</u>
Current and Other Assets	\$ 3,421,266	\$ 4,034,503
Capital Assets	<u>63,637,133</u>	<u>69,644,961</u>
Total Assets	<u>\$ 67,058,399</u>	<u>\$ 73,679,464</u>
Current Liabilities	\$ 1,011,869	\$ 1,772,723
Other Liabilities	<u>554,217</u>	<u>350,783</u>
Total Liabilities	<u>1,566,086</u>	<u>2,123,506</u>
Net Assets		
Invested in Capital Assets – Net of Related Debt	63,059,557	69,292,424
Restricted	<u>2,432,756</u>	<u>2,263,534</u>
Total Net Assets	<u>\$ 65,492,313</u>	<u>\$ 71,555,958</u>

A summary of changes in net assets for the years ended September 30, 2007 and 2008 is as follows:

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2008</u>
Program Revenues		
Charges for Services	\$ 40,767	\$ 55,237
Operating Grants and Contributions	4,704,660	3,655,489
Capital Grants and Contributions	5,354,505	8,964,188
Other	11,076	-
General Revenues		
Interest Income	58,883	59,513
Gain (Loss) on Disposal of Equipment	<u>29,258</u>	<u>3,893</u>
Total Revenues	<u>10,199,149</u>	<u>12,738,320</u>
Program Expenses		
Primary Roads	3,084,985	3,508,844
Local Roads	3,302,442	2,593,173
Interest Expense	35,001	16,923
Compensated Absences and Other	17,810	19,198
Equipment Expenses	40,571	56,681
Administrative	<u>719,866</u>	<u>479,856</u>
Total Expenses	<u>7,200,675</u>	<u>6,674,675</u>
Changes in Net Assets	2,998,474	6,063,645
Beginning Net Assets	<u>62,493,839</u>	<u>65,492,313</u>
Ending Net Assets	<u>\$ 65,492,313</u>	<u>\$ 71,555,958</u>

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2008, the fund balance of the general operations fund decreased \$156,422 as compared to an increase of \$350,153 in the fund balance for the year ended September 30, 2007. Total revenues were \$12,738,917, an increase of \$2,533,716 as compared to last year. This change in revenues resulted primarily from an increase in Federal sources.

Total expenditures were \$12,895,339, an increase of \$2,870,441 as compared to last year. This change in expenditures is primarily the increase in primary road projects in the current year.

Budgetary Highlights

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2008 was higher than the actual receipts by \$1,254,376. This was due, in a large part, to the projection of federal, state and local road participations. The road commission budgets for the receipt of funds for projects on primary and local roads. This year, the revenue from federal contributions was lower than projected in the amount of \$644,736.

Road Commission expenditures were projected at \$14,397,189 while actual expenditures were \$12,895,339. This resulted in total expenditures under budget by \$1,501,850. There are several items that account for the variance in the projection of the budget. The largest share of the variance is in the area of local and primary road preservation and maintenance. Our engineering and maintenance departments projected that work in these two areas would be completed; however, weather and other factors combined to limit the amount of work that could be completed prior to year end.

Capital Asset and Debt Administration**Capital Assets**

The Road Commission had the following amounts invested in capital assets as follows:

	<u>2007</u>	<u>2008</u>
Capital Assets Not Being Depreciated		
Land and Improvements	<u>\$ 21,268,737</u>	<u>\$ 22,322,090</u>
Other Capital Assets		
Buildings and Improvements	914,991	913,966
Road Equipment	5,562,085	5,836,357
Other Equipment	591,460	615,246
Infrastructure and Improvements	<u>66,151,459</u>	<u>73,502,468</u>
Total Capital Assets at Historic Cost	<u>73,219,995</u>	<u>80,868,037</u>
Total Accumulated Depreciation	<u>(30,851,599)</u>	<u>(33,545,166)</u>
Total Net Capital Assets	<u>\$ 63,637,133</u>	<u>\$ 69,644,961</u>

Current year's major additions included the following:

Land Improvements	<u>\$ 1,053,353</u>
Reconstruction of Bridges	<u>\$ 1,495,121</u>
Various Resurfacing Projects	<u>\$ 6,418,174</u>
Trucks/Equipment	<u>\$ 342,092</u>
Buildings	<u>\$ 1,349</u>

Debt

The Road Commission has limited debt obligations as reported in Note 8. Bonds and notes issued have been paid currently. The Road Commission has long-term debt in the amount of \$566,760 which represents compensated absences, notes payable, and bonds payable.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when adopting the fiscal year 2009 budget. One of the factors is the economy. The Road Commission derives approximately 60% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Isabella County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Isabella County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Isabella County Road Commission administrative offices at 2261 E. Remus Road, Mt. Pleasant, Michigan 48858.

Basic Financial Statements

Isabella County Road Commission

Statement of Net Assets September 30, 2008

ASSETS

Current Assets:

Cash and Equivalents	\$ 974,526
Accounts Receivable:	
Michigan Transportation Fund	861,484
Due from Other Units	684,135
Due on County Road Agreements	1,111,769
Sundry Accounts	2,589
Land Contract	7,634
Inventories:	
Road Materials	29,470
Equipment, Parts and Materials	169,983
Prepaid Expenses	<u>192,913</u>

Total Current Assets 4,034,503

Noncurrent Assets:

Capital Assets – Nondepreciable	22,322,090
Capital Assets (Net of Accumulated Depreciation)	<u>47,322,871</u>

Total Assets \$ 73,679,464

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 451,579
Due to State of Michigan	923,137
Accrued Liabilities	66,136
Advances	109,464
Escrow and Other	1,730
Interest Payable	4,700
Notes Payable	15,977
Bonds Payable	<u>200,000</u>

Total Current Liabilities 1,772,723

Noncurrent Liabilities:

Notes Payable	131,860
Vested Employee Benefits	<u>218,923</u>

Total Liabilities 2,123,506

NET ASSETS

Investment in Capital Assets -

Net of Related Debt	69,292,424
Restricted for County Road	<u>2,263,534</u>

Total Net Assets \$ 71,555,958

The Notes to Financial Statements are an integral part of this statement.

Isabella County Road Commission

Statement of Activities For the Year Ended September 30, 2008

Program Expenses:

Primary Road Maintenance and Preventive Maintenance	\$ 3,508,844
Local Road Maintenance and Preventive Maintenance	2,593,173
Net Equipment Expense	56,681
Net Administrative Expense	479,856
Compensated Absences	12,800
Interest Expense	16,923
Other	<u>6,398</u>

Total Program Expenses	<u>6,674,675</u>
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Program Revenues:

Charges for Services:	
License and Permits	25,537
Charges and Other	29,700
Operating Grants and Contributions:	
Michigan Transportation Funds	3,655,489
Investment Earnings	59,513
Capital Grants and Contributions:	
Federal Grants	2,689,341
State Grants	2,957,876
Contributions from Local Units	2,946,644
Contributions from Private Sources	<u>370,327</u>

Total Program Revenues	<u>12,734,427</u>
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Net Program Revenues	<u>6,059,752</u>
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General Revenues:

Gain on Disposals	<u>3,893</u>
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Total General Revenues	<u>3,893</u>
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Changes in Net Assets	6,063,645
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Net Assets:

Beginning of Year	<u>65,492,313</u>
End of Year	<u>\$ 71,555,958</u>

The Notes to Financial Statements are an integral part of this statement.

Isabella County Road Commission

Balance Sheet September 30, 2008

	Governmental Fund Type General Operating Fund
<u>ASSETS</u>	
Cash and Equivalents	\$ 974,526
Accounts Receivable:	
Michigan Transportation Fund	861,484
Land Contract	7,634
Other Governmental Units	684,135
Due on County Road Agreements	1,111,769
Sundry Accounts	2,589
Inventories:	
Road Materials	29,470
Equipment, Parts, and Materials	169,983
Prepaid Expenses	<u>192,913</u>
Total Assets	<u>\$ 4,034,503</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Accounts Payable	\$ 451,579
Accrued Liabilities	66,136
Due to State of Michigan	923,137
Advances	109,464
Escrow and Other	<u>1,730</u>
Total Liabilities	<u>1,552,046</u>
Fund Equities:	
Fund Balance	
Unreserved and Undesignated	<u>2,482,457</u>
Total Fund Equities	<u>2,482,457</u>
Total Liabilities and Fund Equities	<u>\$ 4,034,503</u>

The Notes to Financial Statements are an integral part of this statement.

Isabella County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended September 30, 2008

Total Governmental Fund Balance	\$ 2,482,457
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	69,644,961
Interest accrued, but not due until the following year.	(4,700)
Other long-term liabilities that are not available to be paid in the current period and therefore are not reported in the funds.	<u>(566,760)</u>
Net Assets of Governmental Activities	<u>\$ 71,555,958</u>

The Notes to Financial Statements are an integral part of this statement.

Isabella County Road Commission**Statement of Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended September 30, 2008**

	<u>General Operating Fund</u>
Revenues:	
License and Permits	\$ 25,537
Federal Sources	2,689,341
State Sources	6,459,800
Contributions from Local Units	3,100,209
Charges for Services	17,441
Interest and Rents	59,513
Other Revenue	<u>387,076</u>
Total Revenues	<u>12,738,917</u>
Expenditures:	
Public Works	12,588,938
Capital Outlay	64,439
Debt Service	<u>241,962</u>
Total Expenditures	<u>12,895,339</u>
Excess of Revenues Over (Under) Expenditures	(156,422)
Fund Balance – October 1, 2007	<u>2,638,879</u>
Fund Balance – September 30, 2008	<u>\$ 2,482,457</u>

The Notes to Financial Statements are an integral part of this statement.

Isabella County Road Commission

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2008

Net Change in Fund Balance – Total Governmental Funds	\$ (156,422)
Amounts reported for governmental activities in the statements are different because:	
Governmental funds report capital outlays and infrastructure costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	6,008,426
Loss on capital asset disposals, not recognized in governmental funds	(598)
Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. Loan proceeds provide current financial resources to governmental funds, but entering into loan agreements increases long-term liabilities in the statement of net assets.	215,385
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the Governmental funds.	<u>(3,146)</u>
Changes in Net Assets of Governmental Activities	<u>\$ 6,063,645</u>

The Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Isabella County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Isabella County Road Commission.

A. Reporting Entity

The Isabella County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 5 member Board of County Road Commissioners which is elected biennially for a full term of six years. The Road Commission may not issue bonded debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB #39, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Isabella County Road Commission, a discretely presented component unit of Isabella County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Isabella County Road Commission. There is only one major fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The general operating fund is the only major fund of the Commission. When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted as needed.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program.

D. Assets, Liabilities, and Net Assets or Equity**Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits are recorded at cost.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Isabella County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Isabella County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment & Vehicles	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Compensated Absences (Vacation and Sick Leave)**

The maximum accumulation of vacation hours according to the union agreement is 200 hours. Any excess of the maximum is lost on the anniversary date of hire. Employees accrue hours monthly. Each regular full-time employee is provided with 8 hours per month of sick leave benefit. Each employee receives payment for leave not used upon retirement or death up to 240 hours.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**Budgetary Procedures**

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission's Chief Administrative Officer (manager) and Financial Director prepare and submit a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. All budgeted appropriations lapse at year end. Expenditures exceeded appropriations by insignificant amounts as listed on page 26.

NOTE 3 - CASH AND DEPOSITS

The cash and investments are classified into the following categories:

Petty Cash	\$ 150
Imprest Cash	1,000
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	<u>973,376</u>
Total Cash	<u>\$ 974,526</u>

NOTE 3 - CASH AND DEPOSITS (Continued)

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

Interest rate risk. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Commission has no investment policy that would further limit its investment choices.

Custodial investment credit risk. Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Commission invests with the County of Isabella and would receive its proportional share of holdings.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, \$392,629 of the Commission's bank balance of \$1,292,629 was exposed to credit risk because it was uninsured and uncollateralized. Cash balances are pooled with the County of Isabella funds and may only receive a proportional share of insurance.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Isabella County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Isabella County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Isabella County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Isabella County Road Commission for the current year was as follows:

	Beginning Balances 10/01/07	Additions	Adjustments/ Deductions	Ending Balances 09/30/08
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 225,882	\$ -	\$ -	\$ 225,882
Land Improvements	126,167	2,460	-	128,627
Land Improvement – Infrastructure	<u>20,916,688</u>	<u>1,050,893</u>	<u>-</u>	<u>21,967,581</u>
Subtotal	<u>21,268,737</u>	<u>1,053,353</u>	<u>-</u>	<u>22,322,090</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	914,991	1,349	2,374	913,966
Road Equipment	5,562,085	287,981	13,709	5,836,357
Shop Equipment	136,309	47,441	-	183,750
Office Equipment	147,167	4,621	23,479	128,309
Engineers' Equipment	113,977	2,049	6,846	109,180
Yard and Storage	194,007	-	-	194,007
Infrastructure – Bridges	15,337,459	1,495,121	-	16,832,580
Infrastructure – Roads	<u>50,814,000</u>	<u>6,418,174</u>	<u>562,286</u>	<u>56,669,888</u>
Subtotal	<u>73,219,995</u>	<u>8,256,736</u>	<u>608,694</u>	<u>80,868,037</u>
<i>Less Accumulated Depreciation</i>				
Buildings	432,604	22,738	2,374	452,968
Road Equipment	5,001,454	226,028	12,839	5,214,643
Shop Equipment	110,040	10,786	-	120,826
Office Equipment	91,545	8,873	22,742	77,676
Engineers' Equipment	102,046	3,116	6,846	98,316
Yard and Storage	137,040	8,911	-	145,951
Infrastructure – Bridges	4,715,695	297,363	-	5,013,058
Infrastructure – Roads	<u>20,261,175</u>	<u>2,722,839</u>	<u>562,286</u>	<u>22,421,728</u>
Subtotal	<u>30,851,599</u>	<u>3,300,654</u>	<u>607,087</u>	<u>33,545,166</u>
Net Capital Assets Being Depreciated	<u>42,368,396</u>	<u>4,956,082</u>	<u>1,607</u>	<u>47,322,871</u>
Total Net Capital Assets	<u>\$ 63,637,133</u>	<u>\$ 6,009,435</u>	<u>\$ 1,607</u>	<u>\$ 69,644,961</u>

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to operations of the Isabella County Road Commission as follows:

Primary Road Maintenance and Preventive Maintenance	\$ 1,553,888
Local Road Maintenance and Preventive Maintenance	1,466,314
Equipment	226,028
Administrative	11,990
Other	<u>42,434</u>
Total Depreciation Expense	<u>\$ 3,300,654</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT
Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Isabella County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Isabella County Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 1134 Municipal Way, Lansing, Michigan.

Funding Policy – The obligation to contribute and maintain the system for these employees was established by negotiation with the Isabella County Road Commission's competitive bargaining units and requires a contribution from the employees of 3% of the first \$4,200 wages and then 5% of remaining earnings.

Annual Pension Costs – For fiscal year ended 2008, the Isabella County Road Commission's annual pension cost of \$190,077 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2005, using the age normal cost method. Significant actuarial assumptions used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2007 is as follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial Value of Assets	\$ 7,466,150	\$ 7,729,089	\$ 8,134,629
Actuarial Accrued Liability	8,792,769	9,145,499	9,558,228
Unfunded AAL	1,326,619	1,416,410	1,423,599
Funded Ratio	85%	85%	85%
Covered Payroll	1,410,212	1,543,355	1,526,225
UAAL as a Percentage of Covered Payroll	94%	92%	93%

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	97,205	100%	0
2006	114,546	100%	0
2007	154,786	100%	0

The Isabella County Road Commission's total payroll during the current year was \$1,714,010. The current year contribution was calculated based on covered payroll of \$1,486,160, resulting in an employer contribution of \$190,077 and employee contributions of \$75,335.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2008, the federal aid received and expended by the Road Commission was \$2,689,341 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

Changes in Long-Term Debt

	<u>10/01/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>09/30/08</u>
Note Payable	\$ 163,222	\$ -	\$ 15,385	\$ 147,837
MTF Bonds Payable	400,000	-	200,000	200,000
Compensated absences (1)	<u>206,123</u>	<u>12,800</u>	<u>-</u>	<u>218,923</u>
Total	<u>\$ 769,345</u>	<u>\$ 12,800</u>	<u>\$ 215,385</u>	<u>\$ 566,760</u>

(1) The change in compensated absences is shown as a net addition.

NOTE 8 - LONG-TERM DEBT (Continued)

	<u>10/01/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>09/30/08</u>	<u>Due Within One Year</u>
INSTALLMENT PAYABLE:					

Note payable to finance company, payable in monthly installments of \$1,974, interest rate of 5.475%, secured by equipment, due June 2011.

\$	<u>163,222</u>	\$	<u>-</u>	\$	<u>15,385</u>	\$	<u>147,837</u>	\$	<u>15,977</u>
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BONDS PAYABLE:

\$1,725,000 General Obligation Bonds
Payable of Isabella County over
10 years including sliding scale interest
rate of 4.70% maturing in 2009.

\$	<u>400,000</u>	\$	<u>-</u>	\$	<u>200,000</u>	\$	<u>200,000</u>	\$	<u>200,000</u>
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Annual debt service requirements:

	<u>MTF Series 1999 Bonds</u>			<u>Installment Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	200,000	9,400	209,400	15,977	7,711	23,688
2010	-	-	-	16,874	6,814	23,688
2011	-	-	-	114,986	4,493	119,479
	<u>\$ 200,000</u>	<u>\$ 9,400</u>	<u>\$ 209,400</u>	<u>\$ 147,837</u>	<u>\$ 19,018</u>	<u>\$ 166,855</u>

NOTE 9 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits, the County Road Commission provides post-employment health care insurance benefits to all retired employees by a group insurance plan. The benefits are provided in accordance with articles of the union agreement, which includes the provision that upon retirement, the commission contributes \$150 to \$350 per month for health coverage per retiree based on years of service scale. The Commission's obligation ceases upon the employee attaining the minimum age for Medicare coverage. Total post employment benefit payments for fiscal year 2008 were \$27,000. At September 30, 2008, eight retirees were eligible to receive benefits.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at September 30, 2008.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

NOTE 11 - SUSEQUENT EVENTS

During November 2008, the Commission executed a lease for the purchase of a motor grader in the amount of \$227,800. Terms of the lease require monthly installments for 60 months at 4.75% interest.

Required Supplementary Information

Isabella County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues For the Year Ended September 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 26,500	\$ 27,300	\$ 25,537	\$ (1,763)
Federal Sources				
Surface Transportation Program	296,423	744,905	646,138	(98,767)
High Priority	360,000	943	891	(52)
Bridge	1,364,196	1,604,248	1,170,683	(433,565)
Other Grants	1,427,780	983,981	871,629	(112,352)
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,943,308	2,922,357	2,943,261	20,904
Local Road	1,662,184	1,629,666	1,638,708	9,042
Urban	360,121	350,538	354,340	3,802
Economic Development	916,545	1,369,195	1,265,195	(104,000)
Critical Bridge	255,787	300,797	401,861	101,064
Contributions from Local Units				
City and Village	-	1,332	11,550	10,218
Townships	2,013,092	3,351,920	2,685,937	(665,983)
Other	39,115	177,661	249,157	71,496
Charges for Services				
Salvage Sales	8,600	17,000	16,966	(34)
Other	2,200	350	475	125
Interest and Rents	51,500	66,800	59,513	(7,287)
Other Revenue				
Gain on Disposals	-	5,500	4,490	(1,010)
Other	-	1,800	12,259	10,459
Private Contributions	392,750	427,000	370,327	(56,673)
Total Budget	<u>\$ 12,130,101</u>	<u>\$ 13,993,293</u>	<u>\$ 12,738,917</u>	<u>\$ (1,254,376)</u>

Isabella County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended September 30, 2008

	Original Budget	Final, Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Construction	\$ 1,994,800	\$ 3,089,922	\$ 2,771,817	\$ 318,105
Preservation	4,202,322	3,966,887	3,244,576	722,311
Maintenance	2,117,048	2,070,623	1,954,956	115,667
Local Road				
Preservation	1,375,529	2,054,591	1,922,019	132,572
Maintenance	2,272,279	2,225,045	2,152,635	72,410
Equipment Expense – Net	236,050	8,058	56,681	(48,623)
Administrative Expense – Net	561,609	521,725	479,856	41,869
Capital Outlay – Net	236,300	213,338	64,439	148,899
Debt Service				
Principal	214,812	215,400	215,385	15
Interest	28,334	26,600	26,577	23
Other	<u>5,000</u>	<u>5,000</u>	<u>6,398</u>	<u>(1,398)</u>
Total Expenditures	13,244,083	14,397,189	<u>\$ 12,895,339</u>	<u>\$ 1,501,850</u>
Fund Balance – October 1, 2007	<u>2,638,879</u>	<u>2,638,879</u>		
Total Budget	<u>\$ 15,882,962</u>	<u>\$ 17,036,068</u>		

Other Supplementary Information

Isabella County Road Commission

Analysis of Changes in Fund Balances For the Year Ended September 30, 2008

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 9,036,916	\$ 3,644,122	\$ 57,879	\$ 12,738,917
Total Expenditures	<u>8,687,859</u>	<u>4,270,530</u>	<u>(63,050)</u>	<u>12,895,339</u>
Excess of Revenues Over (Under) Expenditures	349,057	(626,408)	120,929	(156,422)
Optional Transfers In (Out)	<u>(626,408)</u>	<u>626,408</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Transfers In (Under) Expenditures and Transfers Out	(277,351)	-	120,929	(156,422)
Fund Balance – October 1, 2007	<u>2,464,836</u>	<u>-</u>	<u>174,043</u>	<u>2,638,879</u>
Fund Balance – September 30, 2008	<u>\$ 2,187,485</u>	<u>\$ -</u>	<u>\$ 294,972</u>	<u>\$ 2,482,457</u>

Isabella County Road Commission**Analysis of Revenues
For the Year Ended September 30, 2008**

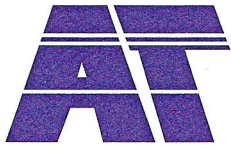
	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 25,537	\$ 25,537
Federal Sources				
Surface Transportation Program	646,138	-	-	646,138
High Priority	891	-	-	891
Bridge	890,745	279,938	-	1,170,683
Other	871,629	-	-	871,629
State Sources				
Michigan Transportation Fund				
Engineering	6,422	3,578	-	10,000
Primary Road	2,943,261	-	-	2,943,261
Local Road	-	1,638,708	-	1,638,708
Urban	298,253	56,087	-	354,340
Critical Bridge	349,373	52,488	-	401,861
Economic Development	1,265,195	-	-	1,265,195
Contributions from Local Units				
City and Village	11,318	232	-	11,550
Townships	1,077,704	1,608,233	-	2,685,937
Other	249,157	-	-	249,157
Charges for Services				
Salvage Sales	-	-	16,966	16,966
Other	-	-	475	475
Interest and Rents	54,607	-	4,906	59,513
Other Revenue				
Gain on Disposals	2,068	-	2,422	4,490
Other	3,828	858	7,573	12,259
Private Contributions	<u>366,327</u>	<u>4,000</u>	<u>-</u>	<u>370,327</u>
Total Revenue	<u>\$ 9,036,916</u>	<u>\$ 3,644,122</u>	<u>\$ 57,879</u>	<u>\$ 12,738,917</u>

Isabella County Road Commission

Analysis of Expenditures For the Year Ended September 30, 2008

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Construction	\$ 2,771,817	\$ -	\$ -	\$ 2,771,817
Preservation	3,244,576	-	-	3,244,576
Maintenance	1,954,956	-	-	1,954,956
Local Road				
Preservation	-	1,922,019	-	1,922,019
Maintenance	-	2,152,635	-	2,152,635
Equipment Expense – Net	18,943	33,561	4,177	56,681
Administrative Expense – Net	317,541	162,315	-	479,856
Capital Outlay – Net	158,340	-	(93,901)	64,439
Debt Service				
Debt Principal Payments	200,000	-	15,385	215,385
Interest Expense	18,275	-	8,302	26,577
Other	<u>3,411</u>	<u>-</u>	<u>2,987</u>	<u>6,398</u>
Total Expenditures	<u>\$ 8,687,859</u>	<u>\$ 4,270,530</u>	<u>\$ (63,050)</u>	<u>\$ 12,895,339</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Board of County Road Commissioners
Isabella County Road Commission
2261 E. Remus Road
Mt. Pleasant, Michigan 48858-9002

We have audited the financial statements of the governmental activities and major fund, of the Isabella County Road Commission as of and for the year ended September 30, 2008, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated December 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Isabella County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiencies described in 08-1 and 08-2 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Isabella County Road Commission in a separate letter dated December 17, 2008.

Isabella County Road Commission's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of County Road Commissioners, management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 17, 2008

Isabella County Road Commission

Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2008

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Project</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION:				
Pass-Through Programs From:				
Bureau of Indian Affairs				
Reservation Roads Program	20.205	AGF2007012	N/A	\$ 363,098
Pass-Through Programs From:				
Michigan Department of Transportation (Note 7)				
Mission Road Bridge of Chippewa River	20.205	BRT 0837 (007)	86274	890,745
Shepherd Road to Pleasant Valley	20.205	STP 0737 (020)	76582	348,932
Broadway Road from Hwy US127	20.205	FLH 0703 (022)	101106	189,701
Mission Road at Blanchard Road	20.205	STP 0137 (003)	54023	243
Fremont Road Bridge	20.205	BRO 0737 (014)	86271	69,327
Summerton Road Bridge	20.205	BRO 0737 (015)	86270	210,611
Blanchard Road to Coldwater	20.205	STP 0737 (016)	87192	297,205
Isabella Road to Broomfield/Bluegrass Road	20.205	STP 0737 (024)	84466	318,830
Stevenson Lake Road at Crawford Road	20.205	STP 0737 (012)	84955	649
Subtotal – MDOT				2,326,243
Total U.S. Department of Transportation				2,689,341
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 2,689,341</u>

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCIES

**Inability of Management to Prepare the Financial Statements in Accordance
with Generally Accepted Accounting Principles**

Finding 08-1

Specific Requirement: Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 112 requires management to prepare annual statements in accordance with GASB Statement Number 34.

Criteria: Internal controls should be in place to provide reasonable assurance to the Commission that management reports financial statements necessary to monitor and report annual and interim financial activity (GASB 34 reporting format) without auditor intervention.

Condition: Personnel responsible for financial reporting are not reporting annual financial activity without auditor intervention in compliance with GASB Statement 34.

Effect: The effect of this condition places a reliance on the independent auditor as part of the Commission's internal controls over financial reporting.

Cause: Change in application of auditing standard.

Recommendation: The Commission should consider subcontracting financial statement preparation activities to monitor and report annual financial activity in accordance with GASB Statement Number 34.

Managements Response - Planned Corrective Action: The Commission will consider preparing the financial statements internally, contracting this process or continuing to utilize the external auditors for reporting based on the results of a cost benefit analysis.

- Contact Person(s) Responsible for Correction:
Anthony Casali, Manager

Status: The financial director has implemented procedures which comply with the GASB Statement 34 reporting requirements.

Section II – Financial Statement Findings (Continued)

NONCOMPLIANCE WITH STATE STATUTES

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 08-2

Condition: Our examination of procedures used by the Commission to adopt and maintain operating budgets for the budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The 2008 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2008 expenditures exceeded the board's approved budget allocations for some general fund activities.

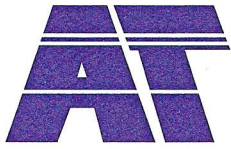
During the fiscal year ended September 30, 2008, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 26 of the financial statements.

Criteria: The expenditures of funds in excess of appropriations is contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Recommendation: We recommend that the chief administrative officer and personnel responsible for administering the activities of the various funds of the Commission, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Management's Response—Corrective Action Plan: Budgets will be monitored in the future.

- Contact Person(s) Responsible for Correction:
Anthony Casali, Manager



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MICHIGAN & WISCONSIN

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Members of the Board of County Road Commissioners
Isabella County Road Commission
2261 E. Remus Road
Mt. Pleasant, Michigan 48858-9002

We have audited the financial statements of the Isabella County Road Commission as of and for the year ended September 30, 2008, and have issued our reports thereon dated December 17, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated June 23, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Isabella County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Isabella County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our memorandum about planning matters on November 18, 2008.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Isabella County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal 2008. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determine that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. A copy of any adjustments are available from management.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 17, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

Capitalization Policy (Prior Year)

The Commission is required to develop a capitalization policy and guidelines for infrastructure and capital assets. A threshold of \$5,000 for infrastructure and \$1,000 for other capital assets should be sufficient for accurate reporting.

Auto Lease Value (Prior Year)

Personal use of business automobiles is considered compensation to employees according to Internal Service Regulations. An auto lease value amount should be calculated in accordance with IRC provisions and included as compensation on the employee's Form W-2 at year end for any usage deemed personal.

Fraud Policy (Prior Year)

With the implementation of Statement of Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The Commission does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Commission adopt a fraud policy in compliance with SAS No. 99.

Policy and Procedure Manual (Prior Year)

The Accounting Procedures Manual for Local Units of Governments and the Uniform Accounting Procedures Manual for County Road Commissions were recently updated by the Michigan Department of Treasury. These bulletins contain several policies and procedures which the Commission should review and implement as appropriate. The Commission policy and procedures have not been updated to incorporate the changes recommended in the state manuals.

GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions (Prior)

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the Isabella County Road Commission required to implement the Statement for the year ended September 30, 2009. GASB Statement 45 will impact the future accounting of post-employment health insurance costs as it relates to the amount the Commission will be required to fund these benefits. Beginning in 2009, the Commission will be required by governmental generally accepted accounting principles to record the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

Status: The Board has performed a liability calculation and is in the process of evaluating the actuarial results in accordance with GASB 45.

Bonding

As a risk management factor, the Board may want to bond those employees with access to cash payments, receipts and payroll. Bonding insures the Commission for potential losses for theft, error or omissions which result in financial harm.

Status: During December 2008, bonding insurance was obtained.

Markers and Sign Inventory

During our observation of markers and signs, we noted several items that do not meet current specifications or are obsolete. These items should be scrapped and removed from inventory to reduce inventory and items to be counted.

Status: The Commission has begun the disposal process.

Payroll

During our review of payroll procedures, we noted that some timecards did not indicate approvals. Additionally, Section 2 of the Employment Eligibility Form was not completed in all cases. Timecards and forms should be reviewed for proper approval and completed in accordance with system design. Nonunion pay rates should be in memorandum form and signed by authorizer.

Status: Corrected.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Isabella County Road Commission, the cognizant audit agencies and other federal and state agencies, and pass-through entities and is not intended to be and should no be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 17, 2008